

RISK MANAGEMENT PROGRAM OVERVIEW

Workers Compensation Program

The Workers Compensation Program is a pass-through of workers compensation expenses paid by the state and its employees to the Workers' Compensation Fund of Utah. (Coverage is only for employees on the state's payroll system which is managed by State Finance. Higher Education and School Districts are not included in the program.) Premiums are billed by the Workers Compensation Fund of Utah monthly, and amounts needed to pay the premiums are collected from employees' paychecks as they are paid every two weeks by State Finance.

The fund supports the activities of two employees who work to reduce Workers' Compensation exposures and awareness of employees so they can hopefully reduce accidents and thereby reduce claims. The fund also assists state agencies by normally paying half of approved expenses for ergonomic furniture, computer keyboards, etc. in the hopes that by doing so, it will help reduce later workplace injuries and thereby reduce claims and control premium increases.

During the last legislative session, a bill was passed requiring Risk Management to self-insure for Workers Compensation insurance or request bids from outside insurance companies through State Purchasing for this service.

Administration Program (includes Liability Fund, Property Insurance Fund, Auto Collision/Comprehensive Fund, and Owner Controlled Insurance Program (OCIP))

The Division of Risk Management was organized during FY1980 under a statute which provided for the State to be self insured. The Administration program includes liability, property and auto physical damage coverage to all state agencies, the forty school districts, over 30 charter schools, and all state-owned colleges and universities, with the following exceptions: medical malpractice for Univ. of Utah Hospitals & Medical facilities, Univ. of Utah School of Medicine faculty & students, and the University College of Nursing nurse mid-wife faculty, all of which are covered by University Trust Funds. The OCIP fund provided optional construction project insurance, but at present, the only project insured is the State Capitol renovation. The liability and auto collision/comprehensive programs are entirely self funded, while the property program has been self insured up to \$2.5 million aggregate yearly deductible (increasing to \$3.5 million for FY07) with a private carrier. Risk Management also acts as an agent in purchasing insurance for the various state agencies and institutions of Higher Education that have airplanes or flight instruction programs.

During the last legislative session, a bill passed that increased to the State's governmental immunity limits. This increases the aggregate cap for an incident from \$1,167,900 to

\$2,000,000, and it is effective starting with the 2008 fiscal year which begins on July 1, 2007.

Recent Accomplishments

Risk Management received a “Superior” rating (an improvement from last year’s “Commendable” rating) from ArmTech, a West Coast based independent claims auditing company. Also, several recent state audits have not identified any problems or recommendations related to our controls over claims disbursements.

Appropriate settlement/resolution of several difficult cases:

- USU van rollover case
- Wasatch Jr. High fire
- Sandy Elementary fire
- A Medical Malpractice case, that was recently approved by the legislative management committee

More involvement with the Attorney General’s Office in identifying the best strategy for court cases involving Risk Management. Continuing to become more involved in decisions about whether to settle or litigate pending claims.

Improved follow-up on subrogations (instances where other insurance companies and others may be liable and should reimburse Risk Management for all or a portion of costs.) The Attorney General’s Office will now be involved when third parties refuse to pay the full amounts due.

Improved follow-up on collections of legal judgments due to Risk Management. The Attorney General’s Office will now follow-up before amounts are sent to the State Office of Debt Collection.

Future Plans

Conversion of Self-Inspection Survey from a paper based system to an on-line system. DTS is the contractor for this work.

Workers Compensation analysis on how to comply with the legislature’s requirement that we change the current systems. Risk Management anticipates hiring an actuarial consultant to advise Risk Management and the State in technical issues.

Making changes to the systems for reimbursing the Attorney General’s office for time spent on Risk Management cases.

RISK MANAGEMENT RATE RECOMMENDATION

Workers Compensation

No changes proposed at this time. Final impacts of taking Workers Compensation in-house or bidding it are unknown.

Administration Program (includes Liability Fund, Property Insurance Fund, Auto Collision/Comprehensive Fund, and Owner Controlled Insurance Program (OCIP))

Property Premiums – Proposed Rate Increase – 15%

When Risk Management renewed the excess insurance policies this year, the rates increased \$2.8 million – an increase of 50% over what was paid last year. The increase results from higher rates nationally, as well as an increasing dollar amount of claims made. In addition, the annual aggregate loss cap for property increased from \$2.5 million to \$3.5 million. (The likely need for an increase for FY08 was discussed with the Rate Committee last year, and that has occurred.)

Risk Management feels that a rate increase is appropriate for FY08. If the entire rate increase were to be passed on this year, it would result in a 30-35% increase in rates. Risk Management feels that with an authorization to move excess retained earnings and contributed capital into this fund (see below), a 15% increase would be appropriate, with the understanding that it is likely there will need to be another request for an increase for FY09.

No rate increase is proposed for Liability, Auto or OCIP

Risk Management also requests authorization to transfer: \$1 million in Contributed Capital in the Workers' Compensation Fund (which was transferred into the fund in FY05), up to \$500,000 of excess retained earnings from the Auto Comprehensive and Collision Fund, and money from excess retained earnings in the Liability Fund as determined appropriate by Risk Management and Administrative Services to other funds within the line item as needed. The Property fund is in need of one-time money in order to avoid having to request a higher rate increase this year. Although this request is not technically a rate, Risk Management is requesting authorization of the committee to move money between funds and programs within this line item. A \$1.5 million transfer between the Liability and Property funds was authorized for FY2007 by the committee and the legislature, and additional amounts are likely to be needed for FY2007 and FY2008.

Rate Comparisons

Our rates continue to be significantly less than the private sector. Property rates on average are approximately 47% of commercial rates.

RISK MANAGEMENT SUPPORTING DATA

RATE METHODOLOGY

Workers Compensation

Rates are estimated based upon rate increases anticipated by our insurance carrier, Workers Compensation Fund of Utah and by other factors such as retained earnings available in the fund. Rates are designed to include costs to provide loss control services to state agencies, thereby helping to keep costs, and therefore rates, down.

Administration Program (includes Liability Fund, Property Insurance Fund, Auto Collision/Comprehensive Fund, and Owner Controlled Insurance Program (OCIP))

Liability Fund – Annually, rates are recommended by an actuarial consulting firm, the Los Angeles office of Deloitte Consulting. Rates are based upon losses and loss trends by agency for at least the past 5 years and relative size of budget. Risk Management takes those recommendations and considers other factors such as adequacy of retained earnings, recent legislative and executive actions, and fluctuations of rates by agency between years when recommending rates to the Rate Committee and the Legislature.

Property Fund – Adjustments to rates are based such factors as increases in excess insurance premiums, individual deductible and annual loss deductibles, results of operations and adequacy of retained earnings.

Auto Comprehensive/Collision Fund - Adjustments to rates are based on loss history, results of operations and adequacy of retained earnings.